

Federal Bureau of Investigation

Honorable William J. Casey
Director of Central Intelligence
Central Intelligence Agency
Washington, D.C. 20505

- ☒ 1. For your information, I am enclosing communications which may be of interest to you.
- ☐ 2. It will be appreciated if you will have the investigation conducted as requested in the enclosed memorandum and furnish the results.
- ☐ 3. No further investigation is contemplated with regard to this matter.
- ☐ 4. You will be advised of the pertinent developments in connection with this inquiry.
- ☐ 5. Please note change in caption of this case.
- ☐ 6. Status of case: ☐ Completed ☐ Incomplete

Director
Federal Bureau of Investigation

FBI Review Completed

Enc. (1)

SECRET

Executive Registry

85- 3935

U.S. Department of Justice
Federal Bureau of Investigation

3935

FBI Foreign Counterintelligence Review Volume XI



SECRET

C-107
A-107

Security Precautions

Warning Notice	Sensitive Intelligence Sources and Methods Involved
National Security Information	Unauthorized Disclosure Subject to Criminal Sanctions
Noform	Not Releasable to Foreign Nationals
Orcon	Dissemination and Extraction of Information Controlled by Originator

SECRET

FBI FOREIGN COUNTER INTELLIGENCE REVIEW
VOLUME XI

This communication is classified "Secret/Orcon" in its entirety.

SECRET

Classified by 859
Declassify on: OADR

SECRET

TABLE OF CONTENTS

	PAGE
INTRODUCTION	iii
I. HOIS PRESENCE AND OPERATIONS IN THE UNITED STATES	1
Union of Soviet Socialist Republics	1
GRU Operations	3
Active Measures	4
People's Republic of China	5
Poland	9
German Democratic Republic (GDR)	11
Hungary	13
Taiwan	14
Cuba	17
Nicaragua	19
South Africa	21
II. DEVELOPMENTS IN COUNTERINTELLIGENCE OPERATIONS	23
Thomas Patrick Cavanagh	23
Alice Michelson	27
Ernst Ludwig Forbrich: Neutralization of an EGIS Agent	29
James Durward Harper, Jr.: Arrest and Conviction of a PIS Agent	34
III. DEVELOPMENTS IN HOIS OPERATIONS	41

SECRET

- i -

SECRET

SECRET

- ii -

SECRET

INTRODUCTION

The purpose of this publication is to provide, on a semiannual basis, an overview and analysis of hostile intelligence service (HOIS) activities in the United States, including presence, operational trends, collection targets, and modus operandi. Detailing and analysis of key FBI counterintelligence operations is also afforded. In the interest of operational and administrative security and acknowledging the need-to-know principle, information is not set forth in specific, detailed documented form. Comments and queries regarding this publication are welcome and may be addressed to FBIHQ, Intelligence Division, Attention: T. J. Dillon, CI-3 Section, B Unit.

SECRET

- iii -

SECRET

I. HOIS PRESENCE AND OPERATIONS
IN THE UNITED STATES

Union of Soviet Socialist Republics

The Soviet intelligence services (SIS) present the most serious espionage threat to the United States. The manpower and resources devoted to intelligence operations against the United States far exceed the effort of other hostile intelligence services. As of June, 1985, 1,410 officials were stationed in the United States. It is estimated that approximately 35 percent of these officials are Soviet intelligence officers (IOs) or co-opted agents.

During the period of this review, the KGB tasked line PR (political intelligence) to be more vigilant in its efforts to report indications that the United States is considering the use of military force in any area of the world, to report on unanticipated meetings by high-level U. S. Government officials, troop movements that are out of the ordinary, and medical-related activities by U. S. Armed Forces which may reflect a preparation for combat.

Political intelligence collection continues to focus upon the Reagan administration's plans and intentions regarding the Third World, including use of American forces in these areas of the world. Other political intelligence priorities are the Geneva disarmament talks of January, 1985, and any intelligence regarding foreign policy issues relating to military and strategic matters.

The KGB continues to target sources of economic information. The areas targeted include domestic issues regarding the American economy, particularly U. S.-USSR trade relations. The KGB is also interested in obtaining information on U. S. trade relations with the Third World.

SECRET

SECRET

A principal objective of Soviet overt and covert collection is scientific and technical (S & T) intelligence. Most Line X officers in the United States seem to establish a broad base of contacts. Among those are official contacts, which are made in connection with the Soviet's official assignment and considered useful for obtaining official policy-type information and background data. Another type of contact is that established in pursuit of ostensible cover duties and from which, in part, is derived the pool of contacts from which a Line X officer will spot candidates for development as agents. Generally, contacts are made by IOs joining professional associations, attending conferences, or contacting research organizations or information brokerage firms. Some of the individual contacts will be further assessed for development. In the process, the Line X officer will ask them for open-source information, to perform research, or possibly to obtain restricted publications.

The expulsion of nearly 150 Soviet officials worldwide in 1983 was directed primarily at those engaged in S & T intelligence collection. Many of those expelled, including two from the United States, were KGB Line X officers. These expulsions, even when coupled with strained U. S. - Soviet relations, do not appear to have had a significant effect on Line X activities in the United States. It would seem that there would be a disruptive effect upon SIS operations when a KGB officer is forced to depart unexpectedly, since it frequently requires several months to arrange for a replacement. The FBI has, however, not detected any activity which might be construed as compensating for the expulsion of an officer. This may be explained in part by the fact that the broad S & T requirements can often be satisfied through the acquisition of unclassified information. Furthermore, targeted material can be acquired outside the United States under more favorable operating conditions, or inside the United States by Warsaw Pact intelligence services.

SECRET

SECRET

The SIS continue their efforts to collect information concerning the organization and personnel of the FBI and other U. S. Intelligence Community (IC) organizations, with the ultimate objective of penetrating these organizations.

The KGB also continues its efforts to recruit emigres or Americans with Soviet ethnic backgrounds. One objective of these recruitment operations is to penetrate the IC and anti-Soviet emigre organization. This enables the Soviets to monitor their activities and ensure the security of Soviet officials in the United States.

GRU Operations

As of June, 1985, approximately 25 percent of known or suspected SIS officers stationed in the United States were considered to be affiliated with the GRU. Recent investigations have revealed two changes in the operations/intentions of these GRU officers, beginning with a greater degree of caution being exhibited by the Washington GRU Residency. In two controlled operations in which classified documents were to be passed, the GRU principal searched the asset in an obvious attempt to detect body recorders or transmitters. This action indicates an awareness of FBI operational techniques by the GRU. It is also known that the Soviets are interested in purchasing several tape recorder detectors which are commercially available in the Washington area.

GRU officers have also shown an interest in personal computers, specifically in computer capability to retrieve information from other computers and to communicate over extended distances. The FBI has no evidence of the GRU's current use of personal computers for either overt or covert intelligence gathering.

SECRET

- 3 -

SECRET

Active Measures

During the first week in July, 1984, allegations surfaced that the Ku Klux Klan (KKK) had sent a letter to the Olympic Committee of Zimbabwe, threatening violence against its Olympic teams. Shortly thereafter, similar letters containing threats, racist, and derogatory language were received by other African and Asian countries. Countries known to have received the letters are Ghana, Mali, Cameroon, Senegal, Uganda, Nigeria, Zambia, Zimbabwe, Liberia, Sri Lanka, Bangladesh, Hong Kong, Malaysia, South Korea, Philippines, Burma, Japan, Singapore, and the People's Republic of China (PRC).

Based upon investigation and analysis of the letters, it has been concluded that they fit the pattern of other Soviet forgery operations and were part of the overall Soviet active measures campaign to discredit the Reagan administration and its handling of U. S.-Soviet relations.

Top-level leaders of the different factions of the KKK were interviewed by the FBI. They categorically denied any knowledge of the letters and pointed out many discrepancies in the logo appearing on the letters.

The words and phrases used in the purported Klan letters are not colloquial English and are characteristic of nonnative use of the English language. In addition, the timing of the mailing of the letters to coincide with the visit of Secretary of State Shultz to Malaysia is indicative of a desire to make the most of these circumstances for propaganda purposes. During this visit, Tass published an article saying that the KKK has "expressed in an extremely base manner what the architects of American Policy have in their mind." The article said that the Reagan administration "has mounted such ferociously anti-socialist activities as has made participation of sportsmen from Socialist countries in the Los Angeles Olympics impossible."

SECRET

SECRET

It is clear that the news release was part of a preconceived plan on the part of the Soviets to immediately publicize material that would support their decision to boycott the Olympics and imply that the letters are in some way connected with President Reagan's foreign policy.

People's Republic of China

Since the publication of the last issue of the Review, the PRC has again increased its manpower resources in the United States. The Chinese diplomatic and official complement has risen to some 1,252 individuals at the PRC's five diplomatic establishments and 40 offices, the latter group representing the interests of PRC trading corporations or government agencies. Of this number, 82 are considered known or suspected officers of the PRC Intelligence Services (PRCIS), some posted to the nondiplomatic offices. The Chinese student/scholar population in the United States now numbers more than 13,000; and delegation traffic, which has grown markedly each year in the recent past, rose sharply again in 1984, with more than 10,500 individuals arriving in more than 2,700 delegations.

For some time it has been reported that the PRC will supplement its consulates in New York City, Houston, and San Francisco with the opening of consulates in Chicago and Honolulu; and reporting now is that the Chicago consulate will open in September, 1985, with a Honolulu consulate scheduled to open sometime in 1986. Although the opening of these new establishments is part of a reciprocity agreement also giving the United States two new consulates in China, the PRC has a history of cutting corners in this area. For example, until the opening of the New York City consulate, the PRC Mission to the United Nations openly provided consular services, although these activities were clearly beyond the

SECRET

- 5 -

SECRET

diplomatic charter of the establishment. Another example of this is the San Francisco Consulate's leasing of a residence in Los Angeles. Ostensibly to house PRC students in the area, this location is staffed by officials from the San Francisco Consulate and is reputed among the Chinese-American community of Los Angeles to be the PRC's "consulate" for Southern California.

Paralleling this development has been a recent tendency for some of the working sections of PRC diplomatic establishments to seek to establish office quarters outside of their current diplomatic facilities. An example of this was seen when the Cultural Affairs Section of the PRC Embassy tried to purchase its own building in Washington, D.C. When the United States Department of State (USDS) learned of this, the purchase was blocked, since the U.S. Embassy in Beijing does not have the same freedom to expand its operations outside its current quarters. The PRC's response to this USDS move was to attempt to have a trusted Chinese-American contact purchase the desired building and then lease it back to the PRC Embassy. The Educational Affairs Section of the PRC Embassy is now also looking for its own outside space, as is the Educational Affairs Section of the San Francisco Consulate.

Although, as noted above, only five to ten percent of the PRC diplomats and officials in the United States have been identified as affiliated with the PRCIS, it should not be assumed that the level of Chinese intelligence activity in the United States corresponds to the level of PRCIS staffing of Chinese establishments. The intelligence activities of these IOs are complemented in the United States by the intelligence activities of Chinese visitors, students, and delegations. Although a number of FBI investigations have documented the fact that PRCIS officers under diplomatic or official cover do handle certain intelligence operations, other investigations have indicated that those same officers play, at most, a supporting role in other PRC intelligence operations in the United States.

SECRET

SECRET

The FBI has concluded that one of the major roles of PRCIS officers is to identify, assess, and befriend Chinese-Americans of intelligence interest to the PRC. These potential agents are encouraged to travel to China, where they are further assessed and cultivated by other PRC officials. If all goes well with a given Chinese-American of interest, his name is placed on one of a number of lists maintained by PRCIS officers at the Chinese diplomatic establishment nearest his home. When a visiting PRC delegation or a Chinese exchange student visits the establishment and tells PRCIS officers there of an intelligence requirement, the officers will check their lists and refer the visitor to an appropriate Chinese-American deemed to be cooperative. Though PRCIS officers do at times assist a visitor who has acquired a sensitive item by shipping it back to the PRC in the diplomatic mails, investigations indicate that it is up to the visitor to devise his own method of acquiring the needed item or information from the targeted Chinese-American. PRCIS officers stationed in the United States thus assist, but do not direct or control many of the PRC's clandestine intelligence efforts in the United States.

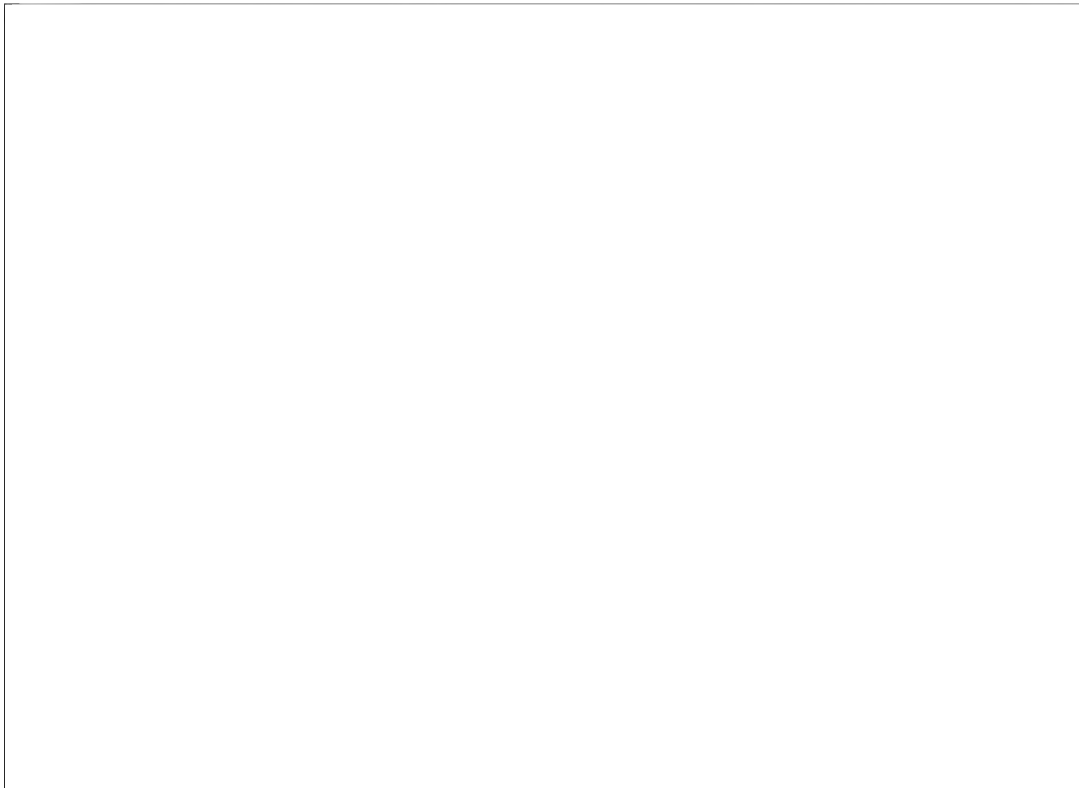
25X1

SECRET

- 7 -

SECRET

Cases in this vein have also revealed that PR CIS have instituted a program in which Intelligence Officers working against the United States are sent out of China as members of visiting delegations. The trips seem to be familiarization tours, and it is not clear that the officers making them have operational missions while travelling in the United States.



25X1

SECRET

- 8 -

SECRET

Poland

The Polish Intelligence and Security Service (SB) and the Military Service (Z-II) continue to operate aggressively in the United States. The primary targets of the Polish services are the collection of S & T information and economic intelligence. The former is a traditional target of the Poles; the latter has received increased emphasis in the last two years due to Poland's ongoing financial crisis.

The James Durward Harper, Jr., espionage case clearly illustrated the PIS emphasis on the acquisition of S & T information. Harper, a U. S. citizen, passed highly sensitive U. S. defense secrets to the Poles at various locations in Europe and Mexico from 1979 to 1981. Included in the compromised material were documents relating to the ballistic missile research and development programs of the United States. For his services, Harper was paid approximately \$250,000 by the Poles. On May 14, 1984, Harper was sentenced to life imprisonment on charges of espionage.

Polish intelligence also tasks Polish students studying in the United States to collect S & T information relative to their fields of study. Another frequently used collection tool of the PIS is Polish emigres who represent one of the largest ethnic groups in the United States.

Economic intelligence has been sought by the Poles in regard to the lowering of import/export controls and the full reinstitution of Polish Airlines (LOT) air travel to the United States. In recent months, the Poles have increased their activities to gather information concerning the possibility of Poland's membership in the International Monetary Fund.

SECRET

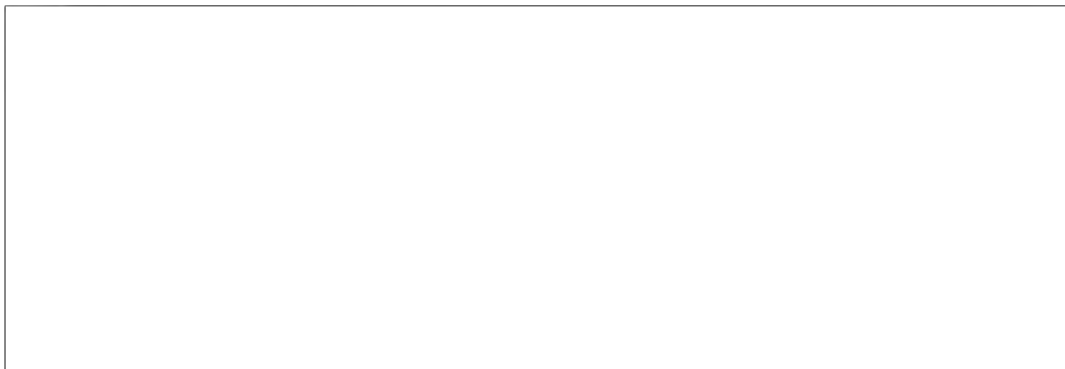
- 9 -

SECRET

As of June, 1985, there were 355 Polish officials in the United States, the largest presence (aside from the USSR) of the Warsaw Pact countries. Of this number, approximately one-fourth are known or suspected IOs. In addition, there are currently 933 students and 1,015 visitors, any of whom may be tasked for information on political, economic and S & T information in the United States.

Polish intelligence personnel and cooptees have been identified through the FBI investigative program Polinex (Polish Solidarity Expellees). Interviews of many of these former members of Solidarity have substantiated they were pressured by Polish intelligence to sign letters of cooperation in return for their release from internment and a passport to travel to the West.

Another base for Polish intelligence operations in the United States is the commercial cover organizations. One of the most prominent of these organizations is the Toolmex Corporation located in Natick, Massachusetts. Toolmex is a wholly owned subsidiary of Metalexport in Warsaw, Poland. The current president and vice president of Toolmex are suspected Polish IOs. It is interesting to note that Toolmex has taken over all of the corporate functions of the now defunct Polish American Machine Company (POLAMCO). Convicted Polish spy Marian W. Zacharski was the former executive officer of POLAMCO.



25X1

SECRET

SECRET

German Democratic Republic (GDR)

As of June, 1985, there were 107 East German officials stationed in the United States. Approximately one-half are considered to be K & S intelligence officers of the East German intelligence services (EGIS).

As noted in the past few issues of the Review, the East Germans have developed an increasingly diversified approach to intelligence collection. It has become apparent that East German diplomatic establishments are being utilized for S & T collection and other intelligence-related activities. GDR officials stationed in the United States have been making increased contacts with U. S. Government employees, U. S. congressional staff members, businessmen, and students. In such contacts, economic and political intelligence relative to the United States, generally available in

In particular, the EGIS have shown an interest in any economic information relating to the lowering of import duties placed on East German products shipped to the United States.

25X1

The East Germans have recently stepped up the collection of military-related and other sensitive information. In recent cases, the EGIS targeted such items as antisubmarine warfare (ASW) technology, cruise missile technology, and U. S. Army anti-aircraft missiles. And, two ongoing cases demonstrate EGIS interest in penetrating sensitive installations. In one case, a GDR agent has been targeted against a nuclear laboratory, and in another case an agent has been tasked to furnish information on a classified center for aerospace research.

SECRET

- 11 -

SECRET

Augmenting the EGIS effort have been the activities of three commercial firms recently established by the GDR in New York City. The firms are initiating business transactions with U. S. companies of interest to the EGIS, and collecting targeted S & T information. Such data are obtained overtly from professional engineering and technical societies which publish material on such topics as industrial trends, market analysis, and production application.

GDR visitors to the United States have increased substantially in recent years, and they too have been used in an intelligence-related capacity. The FBI estimates that virtually all GDR scientists, economists, and trade representatives are tasked to perform some sort of intelligence-related missions, including collection, spotting, and serving as couriers. Exemplifying this was German scientist Alfred Zehe, who served as a handler of an East German agent, in reality an FBI double agent. Zehe was arrested by the FBI in October, 1983, and pled guilty to charges of espionage. In April, 1985, he was sentenced to 8 years in prison, and on June 11, 1985, he was returned to the Eastern Bloc in a prisoner exchange.

As with the Soviets, the East Germans have adopted the practice of establishing front companies for the purpose of acquiring advanced U. S. technology, including items that are embargoed from export to the Eastern Bloc. Investigations revealed that several of these firms are operated by West Germans. There are also indications that some of these firms may receive backing from the SIS, as well as the EGIS.

SECRET

- 12 -

SECRET

Hungary

As of June, 1985, there were a total of 111 Hungarian officials stationed in the United States. Of this overall total, roughly one-quarter of the officials are considered to be K & S IOs of the Hungarian intelligence services (HIS). Over the past several years, the number of Hungarian officials and K & S IOs assigned to the United States has remained relatively stable.

25X1

SECRET

- 13 -

Page Denied

SECRET

Taiwan

Taiwan is represented in the United States by the Coordination Council for North American Affairs (CCNAA), a semi-diplomatic entity having responsibilities similar to those carried out by foreign embassies and consulates. There are now ten CCNAA establishments in the United States located in Atlanta, Boston, Chicago, Houston, New York, Los Angeles, Honolulu, Seattle, and San Francisco; the Special Representatives Office (SRO) is located in the CCNAA establishment in Bethesda, Maryland. The Taiwanese are planning to open a further establishment in Kansas City, Missouri.

25X1

SECRET

- 15 -

SECRET

It is significant to note, however, that the TIS, during the past few years, have broadened their collection objectives to include intensified targeting of S & T and military-related material. Perhaps the most significant targets of this nature have been ASW technology and missile and radar-related technology. Targeted material of this nature includes, specifically, guidance technology, missile software and hardware, missile design computer programs, gyros and actuators, and the Tomahawk cruise missile.

The activities of the TIS in the United States came to the forefront as a result of the murder of Henry Y. Liu on October 15, 1984, in Daly City, California.

25X1

[redacted] Liu's skill was such that he came to be successful in manipulating the TIS into believing that he was acting as their agent against the PRC and leading the PRC to believe that he was acting as an agent of the PRC.

Within a month of the murder, FBI investigations had developed five suspects all of whom belonged to the Taiwan-based United Bamboo gang. Further investigation revealed that officers of the IBMND had been in contact with United Bamboo and had tasked gang members to murder Liu, since the IBMND had received information that Liu was working for the PRC.

Eventually, the Government of Taiwan arrested three members of the IBMND for complicity in the murder plot, all of whom were tried and convicted on charges of murder. Two members of the United Bamboo gang were also arrested, tried and convicted by the Taiwanese.

Although the Taiwanese Government denied any involvement in the murder of Liu, the incident has become a cause celebre, and has spurred protests from members of the United States Congress and the Chinese-American community.

SECRET

- 16 -

SECRET

Cuba

Government of Cuba (GOC) officials assigned to the United States, including working wives, total 129. Roughly 30-35 percent of these officials are known or suspected of Cuban intelligence services (CuIS) affiliation.

Since the October, 1983, U. S. military action in Grenada, the CuIS, reflecting the intensified concern of the Cuban political leadership, has displayed an increased interest in gathering information on the disposition and readiness of U. S. military forces. Current reporting indicates that the Cuban leadership believes U. S. military action against either Nicaragua or Cuba is possible. Consequently, the Cubans have tasked their agents to obtain information on U.S. troop movements and concentrations. Almost all DAs who are in contact with the Cubans have been tasked to, at a minimum, remain alert for signs of U.S. military activity which could signal an invasion of Cuba or Nicaragua. Additionally, Cuban IOs assigned in the United States under diplomatic cover continue to lobby members of the U.S. Congress, press and academic community to oppose the U.S. military build-up of the Reagan administration.

The CuIS generally attempts to recruit individuals who have family ties to Cuba and induce their cooperation either through threats of hostage situations (or by promise of preferential treatment for family members), or by invitations to return to Cuba to personally experience the success of the Revolution, thereby appealing to the individual's sense of nationalistic pride.

SECRET

- 17 -

SECRET

Cuban IOs operating under diplomatic cover in the United States are in frequent contact with a wide range of U. S. citizens, mainly to lobby against the current U. S. military build-up and the continuation of the U. S. trade embargo against Cuba. Their contacts include Cuban exile groups, members of Congress, Congressional staff members, the media, student organizations, businessmen, and state and local political leaders. Some of these contacts have visited Cuba at the invitation of the Cuban Government, where they have been the recipients of the Cuban public relations campaign designed to foster a pro-Cuban attitude.

Although the current major objective of the CuIS is collection of information on U. S. military disposition and readiness, other objectives remain--the collection of information on anti-Castro exile groups and emphasis on issues surrounding the trade embargo and efforts to repeal same. Objectives, such as penetrating the FBI and CIA, and the collection of some U. S. technology, will probably continue.

The CuIS has been generally effective in achieving its objectives. It has established an extensive network of agents within the Cuban immigrant population. Furthermore, Cuban IOs have met with a degree of success in the projecting of a positive image of their revolution to the American people.

Source reporting suggests that a number of high-level Cuban officials are becoming disenchanted with Castro and the GOC. This disenchantment may be based upon the belief by Cuban officials that the Cuban Revolution has failed and that a bleak future is in store for Cuba under communism. Disenchantment with and a loss of personal loyalty to Castro suggest that an overall softening of the Cuban target may be taking place, and in the coming years the CuIS may become more vulnerable to penetration by U.S. counterintelligence services.

SECRET

- 18 -

SECRET

Nicaragua

Nicaragua is represented officially in the United States by the Nicaraguan Mission to the United Nations, the Permanent Mission of Nicaragua to the Organization of American States, and the Nicaraguan Embassy. Nicaragua currently has approximately 60 officials assigned to these establishments. Approximately ten percent are considered K & S IOs.

The Nicaraguan intelligence services (NIS) in the United States attempt to:

- gather information on the anti-Sandinista exile population;
- collect information on U. S. Government policies vis-a-vis Nicaragua and Central America; and,
- project a positive image of the Sandinista revolution to the American people.

Shortly after the Somoza Government was overthrown in 1979, the Nicaraguan Government of National Reconstruction (GRN) utilized the pro-Sandinista organization "La Brigada" as an intelligence network. A source of unknown reliability advised during May, 1980, that the goal of "La Brigada" was to quash any opposition to the Sandinista regime. At that time, "La Brigada" dispatched new operatives to the United States. This new group was largely composed of Sandinistas, Chileans, and Cubans.

SECRET

SECRET

Since the closure of most Nicaraguan Consulates in June, 1983, the NIS appear to be utilizing the Nicaraguan solidarity groups more extensively. The group most frequently used is the National Network in Solidarity with the Nicaraguan people. This group is funded in part by contributions from approximately 60 local groups, churches, and public foundations. They are active on university campuses and are supported by individual contributions and foundation grants.

Available information indicates that there may be cooperation between the Cubans and the Nicaraguans concerning the use of the Nicaraguan solidarity groups. It is known, for example, that the Casa de las Americas (CDLA), a social club organized by Cuban exiles and frequented by officials of the GOC assigned to the CMUN, have distributed leaflets advertising a walk against the United States involvement in El Salvador and Central America.

SECRET

- 20 -

SECRET

South Africa

The Government of South Africa has directed its intelligence services to conduct intelligence activities throughout the world. The South African intelligence services that operate in the United States include the South African National Intelligence Service (SANIS) and the South African Department of Military Intelligence (SADMI). These services are operative within the South African Mission to the United Nations in New York, the South African Embassy in Washington, D.C., and all five South African consulates in the United States. The South African Security Police (SASP) is also known to operate clandestinely in the United States. Additionally, some South African media representatives in the United States have been identified as intelligence personnel.

The SANIS continues to target U.S. Government organizations and those organizations which support black nationalism within South Africa and/or actively oppose South Africa's policy of apartheid. SADMI targeting is directed toward military information of benefit to South Africa's armed forces. During 1984, SADMI increased its efforts to obtain information on high technology weaponry and nuclear-related technology. SADMI is also involved in the legal and illegal purchase and export of military equipment.

Current statistics indicate a presence of 198 South African officials in the United States, among whom roughly 15 percent are considered to be K & S IOs.

SECRET

- 21 -

SECRET

SECRET

- 22 -

Page Denied

SECRET

The vehicle driven by subject was registered to Thomas Patrick Cavanagh, born March 1, 1947, in Northridge, California. It was determined that Cavanagh was employed as an engineer by the Northrop Corporation, a major defense contractor. He held a "Secret" security clearance with special access and was then being processed for a Top Secret clearance.

25X1

SECRET

- 24 -

SECRET

25X1



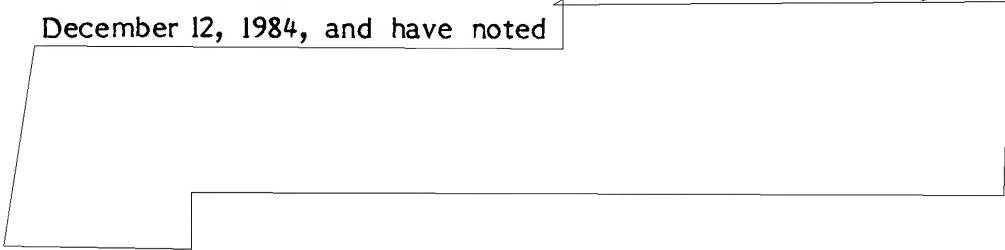
UCAs learned during the course of the interview that Cavanagh was armed with a loaded, 45-caliber automatic pistol. During the course of conversations and the transmittal of the \$25,000, one of the UCAs was able to gain possession of the weapon. A previously arranged signal to monitoring SAs outside the hotel room resulted in their entry while the UCA was in possession of the weapon, and Cavanagh was arrested without incident.

SECRET

- 25 -

SECRET

USAF and Northrop personnel have reviewed documents provided by Cavanagh to the UCAs during the meeting on December 12, 1984, and have noted



25X1

The case was presented to a grand jury on December 27, 1984, and they returned a three-count indictment for espionage. Cavanagh pleaded guilty on March 14 and on May 23, 1985, he was sentenced to serve two concurrent life sentences.

SECRET

- 26 -

SECRET

Alice Michelson

25X1

On September 15, 1984, the asset traveled to Mexico City and met at the Soviet Embassy with two Soviets, one of whom is a known IO. The KGB directed the asset to make telephonic contact on September 20, 1984, with a woman identified by the KGB as Alice Michelson at a number in New York City. The KGB officer provided the asset with a photograph of Alice Michelson and instructed the asset to arrange a meeting prior to September 29, 1984, inasmuch as Michelson would be departing the country thereafter. The purpose of the meeting was to practice exchanging information using concealment devices given to the asset by the KGB. During the meeting on September 15, 1984, the KGB officer also provided the asset with a miniaturized tape recorder and instructed him to either read aloud into the recorder directly from classified documents or to dictate classified information into the recorder from memory. The KGB further instructed the asset to then place the tape into a concealment device (a false cigarette pack) supplied by the KGB and pass the device to Michelson.

SECRET

- 27 -

SECRET

On September 20, 1984, the asset made a phone call to Michelson using the telephone number he was given, and tentative plans were set to meet at the Baltimore-Washington International Airport on September 29, 1984, at 2 p.m. Before the plans could be finalized, Alice Michelson advised the asset she would have to check with her "people" and call the asset back on September 24, 1984. On the night of the 24th she called and confirmed the meeting plans.

On September 29, 1984, the asset and Alice Michelson met at the Baltimore-Washington International Airport, and the asset gave Michelson a pack of Marlboro cigarettes containing a hollowed section in which classified U. S. information was stored in tape form. Michelson voluntarily accepted the pack with the information.

Michelson then attempted to leave the United States on October 1, 1984, aboard an aircraft of the Czechoslovak Airlines. As she prepared to board a flight destined for Prague and East Berlin, she was questioned by U. S. Customs officials, who were aware of the FBI's interest in Michelson. Having located the cigarette pack and two tapes, she was detained by Customs officials and subsequently transported to the offices of U. S. Customs where she was turned over to the FBI and placed under arrest.

During interview, Michelson stated that she was born on November 12, 1916 in Berlin. Michelson described herself as a retired teacher who had concentrated on the English language. When questioned about intelligence-related activities, Michelson claimed innocence, stating that she had been asked as a favor to a person in East Germany, to contact a person in Maryland and bring back a package which he would give to her. Michelson was subsequently indicted for violation of the espionage statutes and held, awaiting trial. She eventually pleaded guilty, was sentenced to ten years in prison, and then returned to the Eastern Bloc in a prisoner exchange.

SECRET

- 28 -

SECRET

Ernst Ludwig Forbrich: Neutralization of an EGIS Agent

On June 29, 1984, Ernst Ludwig Forbrich, an agent of the EGIS, was convicted of espionage, and on August 3, 1984, he was sentenced to 15 years in prison. Forbrich had been arrested on March 19, 1984, after selling classified documents for \$550 to a UCA. The Forbrich investigation also spawned the arrest in West Germany of Michael Cameron, a U.S. citizen, on charges of espionage, and also led to investigations (some of which are still ongoing) of several other individuals.

The investigation was initiated in July, 1982, when the estranged wife of a former U. S. Army major reported to the Tampa Field Office of the FBI that her husband had sold military secrets to the East Germans while he was serving in the Federal Republic of Germany (FRG). The period during which he sold the documents occurred during the 1970s. The woman reported that Ernst Forbrich, a citizen of the FRG and an operator of an auto repair facility, served as a conduit through which the documents were passed to the EGIS.

In the course of an interview, the woman stated that her husband's activities first came to her attention in June, 1980, during a visit by "John" (Forbrich), who had been a friend of the major since the 1970s. While her husband and John were having a secretive meeting in a bedroom (she noted that such meetings were commonplace in the course of the relationship which extended back several years, between John and her husband), she decided to interrupt the exchange. On a bed were numerous documents, official in appearance, which John was photographing with a small camera. Her husband became outraged and demanded that she leave the room.

SECRET

- 29 -

SECRET

After John's departure, the major explained that the German was a "garbageman" who collected random pieces of information for sale in East Germany. The husband stated that the documents sold were actually concocted by him and of no value. But, based upon what she had seen of the numerous documents her husband had stored in their homes over the years, she surmised that the material sold to John was genuine. He also explained that John had been a captain and was now a lieutenant colonel--she presumed this meant that John was a member of the EGIS.

During the interview with the FBI, the woman recounted other suspicious activities on the part of John and her husband. Several years ago, while the couple was still in West Germany, John had given a small camera to her husband which was similar to that used by John during his visit. Further, during another visit to the couple in 1980, John stated that he wished to visit the Pentagon (at that time the woman was employed by the Department of Defense). The woman duly brought the German to her office whereupon John, wearing merely a visitor's pass, became "lost" in the corridors of the Pentagon for approximately three hours. (Interestingly, relative to her allegations, the woman failed polygraph examinations.) A security service of the FRG was then contacted regarding Forbrich, and the response of the West Germans tended to corroborate the woman's allegations. As early as 1970, Forbrich had been investigated by the West Germans for suspected espionage activities. From that point on the West Germans cooperated in the FBI investigation of Forbrich.

SECRET

- 30 -

SECRET

The major was interviewed in January, 1984 regarding the allegations of his first wife. He firmly denied any of the charges and countered by stating that his wife was mentally unstable, had a profound hatred for him, and wished to wreak vengeance against him.

Fortuitously, shortly after the interview it was learned that the major's wife had been contacted by Forbrich, who informed the woman that he was coming to the United States and wished to meet with her. Under monitoring by the FBI, a meeting was duly arranged. At this rendezvous, Forbrich was quite voluble, giving details of his dealings with the major. He stated that the major had first sold data in 1971, and over the years had supplied some valuable, "Top Secret" information to the Germans. The major could have made much more cash, the German explained, but he was somewhat lazy in his approach to espionage. Forbrich stated that, currently, his most valuable agent was a general in the U. S. Army (Forbrich supplied the name of this individual to the woman). He also mentioned a sergeant from whom he had obtained documents. The meeting closed with Forbrich promising the woman up to \$100,000 in cash if she regained employment at the Pentagon and then cooperated with Forbrich.

Based upon what was learned in this meeting, it was decided to set up a double agent operation, utilizing the woman, aimed at luring the German back to the United States and making an arrest. It was further decided to introduce a UCA into the operation. The UCA would impersonate a disgruntled "lieutenant colonel" who had made the acquaintance of the woman and wished to make some cash by selling classified documents to Forbrich.

SECRET

- 31 -

SECRET

Through the end of 1983, the woman communicated with Forbrich by telephone, and mentioned to him that she had a "present" to deliver to the German. Eventually, in March, 1984, Forbrich traveled to the United States to meet with the disgruntled "officer" and obtain his "present." Forbrich met with the UCA in a motel for a period of roughly two hours. In the course of this meeting the German, as voluble as ever, stated that he had been an agent of the EGIS in excess of 15 years. As the meeting closed, Forbrich paid the UCA \$550 for the document and departed the scene of the meeting, whereupon he was placed under arrest.

There were a number of spinoffs of the Forbrich case. The one which had the most tangible results was the neutralization and arrest by West German authorities of Michael Cameron, a U. S. citizen and civilian employee of the U. S. military, for supplying military documents to Forbrich. The general, major, and other military personnel who allegedly supplied documents to Forbrich admitted being acquainted with the German but strongly denied compromising any classified data.

The most significant aspect of the case is its degree of sophistication, which demonstrated once again the high level of skill of which the Eastern Bloc services are capable. Forbrich operated, almost without detection, in excess of 15 years, and the precise number of servicemen compromised by the German will probably never be known. The modus operandi executed by Forbrich was

SECRET

- 32 -

SECRET

quite ingenious. Although an auto garage may seem innocuous, it could serve as an excellent setting for spotting, assessing, and recruiting agents. Auto garages, like local taverns, oftentimes take on the form of a "club-house," where individuals can socialize. This is apparently what Forbrich's auto garage was to U. S. servicemen. Forbrich also provided a service that is needed by virtually everyone--advice and assistance on automobiles.

The case also demonstrates the potential security problems caused when hundreds of thousands of American troops, most poorly paid, are stationed in a foreign setting. It is interesting to note that, in Forbrich's long career of espionage, few American servicemen reported his activities.

SECRET

- 33 -

SECRET

James Durward Harper, Jr.:
Arrest and Conviction of a PIS Agent

On May 14, 1984, James Durward Harper, Jr., a United States citizen, was sentenced to life imprisonment on charges of espionage. FBI investigation had discovered that over a two-and-one-half-year period beginning in 1979, Harper delivered voluminous classified documents to officers of the PIS in Europe and Mexico. Included in these documents was extremely sensitive information relating to the Minuteman missile and the ballistic missile research and development programs of the United States. For his services Harper was paid in excess of \$250,000 by the PIS. The Harper case marked the second time within three years that an American had been arrested for involvement with the PIS for espionage purposes (William Holden Bell was convicted in 1981 as a result of his espionage activities with Polish IO Marian W. Zacharski).

The FBI learned in March, 1981 that sensitive classified information concerning the Minuteman missile had been compromised to the PIS. The information was received from a confidential source who at that time was a high-ranking officer of the PIS stationed in Warsaw, Poland. (This fact was disclosed in the affidavit and subsequent court documents after Harper's arrest and arraignment; the source has since been exfiltrated successfully from Poland.) The source also reported that the classified information was furnished to the PIS by a retired American businessman who had been introduced to the Poles in Warsaw in October 1979.

SECRET

- 34 -

SECRET

According to the source, the introduction of the American was brokered by an individual named William Bell Hugle. The FBI had previously investigated Hugle, due to his alleged involvement in technology transfer sales to the Soviets and Soviet Bloc countries. After an extensive investigation, it was eventually decided to proceed with an interview of Hugle. On July 29, 1981, Hugle was interviewed by the FBI and denied any knowledge of involvement in the sale of technology to a hostile country.



James Durward Harper, Jr

SECRET

- 35 -

SECRET

In October, 1981 a separate but seemingly related espionage matter came to the attention of the FBI. Through William Dougherty, an attorney in California, the Central Intelligence Agency (CIA), the Department of Justice (DOJ), and then the FBI were approached concerning the sale of classified information to the PIS by an unnamed American. The attorney indicated that one of his "clients" had traveled to Poland and Mexico several times since 1979 to do business with the PIS. The client was now hoping to have immunity from prosecution arranged, in exchange for information he would supply to the U. S. Government on his illegal activities. The client also offered his services as a double agent.



Ruby Louise Schuler

SECRET

SECRET

It was apparent that the activities of the attorney's client resembled those of the unknown American under investigation by the FBI. Since the granting of immunity from prosecution was never a viable issue, it became necessary to establish a relationship with the client through Dougherty to insure a continued dialogue. This was accomplished by the submission of a list of twenty questions to the client. The questions were designed to elicit responses that might help identify the client, determine if the client was the unknown American, or both.

In February and March of 1982, Dougherty provided his client's responses to the questions. They were in the form of detailed but anonymous depositions which Dougherty transcribed from cassette tapes. The depositions were quite detailed but frequently rambling in style. Most important, however, based upon one of the depositions, the FBI was able to identify the client as being James Harper, Jr., a self-employed electronics engineer who resided in Mountain View, California. Thus, the first goal of the FBI investigation had been accomplished with the identification of Harper.

Further investigation revealed that Harper had maintained a relationship with Ruby Louise Schuler, who was an executive secretary to the President of Systems Control Incorporated (SCI), in Palo Alto, California. SCI is a Government contract facility which handles defense contracts. While Schuler was employed at SCI, the company did research for the U. S. Army Ballistic Missile Defense Advance Technology Center, in Huntsville, Alabama. In her position, Schuler had routine access to virtually all of SCI's classified material. Schuler was Harper's access to classified material at SCI. Their relationship became part romance, part business.

SECRET

- 37 -

SECRET

All the pieces of the investigative puzzle seemed to fit. Harper was the unknown American/client; through Schuler he had access to ballistic missile information. For arrest purposes, it was now necessary to catch Harper flagrante delicto with classified material, or at least locate documents in his possession.

The FBI's technical coverage provided the answer to this problem. In a number of telephone conversations at his residence Harper mentioned that he had a "hutch" where he kept his "stash." Through repeated use of these words and others in Harper's strange jargon, it was speculated that the "stash" was a collection of classified documents that Harper kept for potential future sale. When he stated during a conversation that he was on his way to the "hutch," FBI surveillance followed Harper to a commercial storage space. A later inspection of the storage space by the FBI provided the missing ingredient. Numerous classified SCI documents were located there, as well as meticulous diaries that detailed Harper's travels, meets, and payments in connection with his espionage activities. Harper was arrested on October 15, 1983, on charges of espionage.

The principal IO in the operation was Zdislaw Przychodzien, a lieutenant colonel in the PIS under the cover of an official in the Polish Ministry of Machine Industry, Warsaw. As reported by the confidential source, Przychodzien had been assigned to the United States in the mid 1970's with the Polish Commercial Office in New York City. Przychodzien was not unknown to the FBI - he was the IO in Warsaw who directed the recruitment of U. S. citizen and PIS agent William Holden Bell.

SECRET

- 38 -

SECRET

Despite the involvement of Przychodzien, the Harper case was not without significant Soviet overtones. The tasking Harper received from Przychodzien and other Polish IOs was derived from a master "shopping list" provided by the Soviets. This was confirmed by the confidential source whose information generated the Harper investigation. The Harper case is only the most recent example of the unmistakable cooperation between the intelligence services of the Warsaw Pact and the Soviet KGB. The Bell case reflected similar close Soviet/ Polish cooperation.

In conclusion, U. S. army analysts have described the damage caused by Harper's espionage involvement with the PIS as "beyond calculation." Mr. John Cunningham, the Acting Director of Technology for the U. S. Army's Ballistic Missile Defense Project Office commented that the loss, "...would cause serious damage to our national defense and would provide Warsaw Pact analysts with a windfall of intelligence information about the capabilities of our strategic forces and our present and future plans to defend them."

SECRET

SECRET

SECRET

- 40 -

SECRET

III. DEVELOPMENTS IN HOIS OPERATIONS

When the People's Republic of China (PRC) first established a diplomatic presence in the United States in the early 1970s, it immediately began laying the groundwork for exploiting the intelligence opportunities which direct access to Americans offered. The FBI in turn, also began to take advantage of the opportunity to observe Chinese intelligence activities at a rather close range. This observation revealed early on that the PRC had a particular appetite for any and all information about one small segment of the U.S. population: the Chinese-American community.

Over the years, the PRC has expanded its resources in the United States from one diplomatic establishment and several dozen individuals to five diplomatic establishments and forty trade offices, and also more than forty thousand diplomats, officials, visitors, students, etc. During this period, Chinese clandestine intelligence operations also grew markedly in both quality and quantity. FBI investigation of these activities has demonstrated time and again that these intelligence operations have a single common element -- they are aimed at developing or exploiting the intelligence potential of Chinese-Americans. So pervasive has this phenomenon been, that years of investigation have unearthed only several PRC covert intelligence operations in which one of the central figures has been a person of other than Chinese origin. Furthermore, sources who have attended intelligence planning meetings run by PRC officials have advised that those officials usually only ask two questions when discussing how best to obtain a covert item from a targeted company or department: is there an ethnic Chinese there? If so, does this person also have any relatives in the PRC? If the answer to both these questions is affirmative, then the PRC officials become quite confident of their prospects of obtaining the desired item.

SECRET

- 41 -

SECRET

Although this near total reliance on the assistance of Chinese-Americans is a fact of life of PRC intelligence operations, until recently, the reasons for this unique Chinese approach have been open to speculation. Not long ago, however, a source was able to shed some light on how at least one senior PRC official views the situation. The source's reconstruction of the official's views are presented below.

In late 1984, information surfaced on a meeting which was held at a PRC consulate. Present at the meeting were, among others, two known intelligence officers of the PRCIS, and a suspected intelligence officer of the PRCIS. During this meeting, one of the known IOs presented the following overview of Chinese-Americans and their role in PRC intelligence collection efforts.

The IO said that it is possible to categorize Chinese-Americans into three groups in terms of their professions or affiliations: small businessmen, big industrialists, and also engineers and scientists in key U.S. high technology industries.

Throughout his presentation, the IO used the names of a number of Chinese-Americans as specific examples. Regarding "small businessmen," the IO noted only that most Chinese-Americans on the West Coast are middle class. Regarding "big industrialists," the IO mentioned a number of prominent Chinese-American businessmen and gave a brief description of the activities and influence of each.

SECRET

- 42 -

SECRET

When the IO discussed the scientist and engineer group, he noted that although these people comprise only a relatively small component of the U.S. population, they made up a significant percentage of those involved in critical specialty engineering and science occupations and observed that these occupations are on the cutting edge of U.S. Government and private industry high-technology research. The IO noted that one-third of all IBM corporation engineers are Chinese.

The FBI has seen other PRC officials place this particular statistic at as high as 55 percent. The IO said that Chinese engineers and scientists are working in all aspects of the U.S. space program. The IO also stated, "no matter whether it is building a defense satellite or a sensitive defense weapon, Chinese technical people play an important role. Chinese professors also teach in famous universities such as the University of California at Berkeley and Stanford. The importance of them to China is therefore obvious." The IO remarked that he believes that there is a great future potential for these people to become involved with the PRC, that a long-range plan for them should be developed, and that a natural consideration will be "the problem of importing them to the PRC."

The IO went on to opine that it is also possible to categorize Chinese-Americans into three groups based on their degree of emotional ties to the PRC: emigres over 55 years old, emigres younger than 55, and those raised entirely in the United States.

SECRET

- 43 -

SECRET

The IO characterized the over-55 group as individuals who have reached the height of their careers and are ready to retire. They are willing to make contributions to the PRC. The IO mentioned as examples several very prominent individuals and then told the story of one Chinese-American in this age group whose father had been prosecuted and jailed during the early days of the PRC regime. Not long ago, the PRC reopened the investigation on the father and decided that he had been falsely accused. After the exoneration of his father, the Chinese-American was invited to give a guest lecture at a Chinese university and accepted the invitation. The IO also mentioned that several senior Chinese-American educators who, realizing that they cannot go any higher at their U.S. universities, have been working to establish and run new universities in China. Through these enterprises, The IO has urged the PRC Government to go along with them, noting that the PRC can change the rules later and ultimately take control of the universities.

The IO observed that most of the members of the under-55 age group are from Taiwan. Most are technically oriented and work for large U.S. companies. Some have their own businesses with ties to the PRC. Others are academics who wish to visit the PRC to lecture at universities. They all desire to establish good relations with the PRC, but do not want it known openly because of family or business ties to Taiwan. They are, therefore, vulnerable and constitute a good source of individuals and companies of use in furthering PRC scientific development. The IO gave as an example of a member of this age group, a Chinese-American who belongs to a Chinese family association in his home city. This man works for a large U.S. corporation, which sends him to the PRC frequently. When in the PRC, the Chinese-American assists an organization near his ancestral home with its research work.

SECRET

- 44 -

SECRET

He said that the third group, Chinese-Americans who were either born in or grew up in the United States, typically speak no Chinese or at most, a few words of Cantonese and desire to visit the PRC only for tourism or to see a distant relative. The PRC used to pay little attention to this group, until a recent favorable impression of a young Chinese-American engineer sent to the PRC to work on a difficult problem changed Chinese perceptions.

The IO said that all three of these age groups are worth winning over for the PRC. He advocates more effective use of communications media propaganda but thinks that the most effective tool would be a letter from relatives in the PRC encouraging a given individual to travel there.

The IO also said that he foresees big changes in the PRC's overseas Chinese work in the United States in the next few years. He pointed out the need for more money, citing the fact that Taiwan's Coordination Council for North American Affairs representatives have more money to operate than do PRC officials. For example, they receive \$130 per diem operating expenses, and are allowed home leave each year, while PRC officials get \$60, and are allowed home leave every second year, etc.

In conclusion, remarks of the IO seemed to confirm previously published FBI assessments of the thrust of intelligence work being done by the PRC among Chinese-Americans.

SECRET

- 45 -

SECRET

SECRET
- 46 -

SECRET

DISSEMINATION LIST

Assistant to the President
for National Security Affairs - 1

Foreign Intelligence Advisory Board - 2

Department of Justice, The Attorney General - 1;
Office of Legislative Affairs - 1; Counsel for
Intelligence Policy - 1

Department of the Treasury, Director, U.S. Secret
Service - 1; Special Assistant for National Security - 1

Department of State, The Secretary of State - 1

Director, Defense Intelligence Agency - 2

Assistant Chief of Staff for Intelligence, U.S. Army - 5

Office of Special Investigations, U.S. Air Force - 5

Director, Naval Investigative Service, U.S. Navy - 1

Director of Central Intelligence - 1

Security Committee/Intelligence Community (IC) Staff - 1

Chief, Community Counterintelligence Staff/IC Staff - 1

Central Intelligence Agency, Deputy Director for Operations
(DDO) - 1; Office of Communications/DDO - 1;
Policy Coordination Staff/DDO - 2; Chief, Counterintelligence
(CI) Staff - 1; CI Staff (Publications) - 1; Deputy Director
for Intelligence (DDI) - 1; Chief, Collection Requirements
and Evaluation Staff/DDI - 2; Director, Office of
Security - 1; Chief, Security Analysis Group/Office of
Security - 1

National Security Agency, Director - 1; M56 - 1; M503 - 1;
Publication Unit - 1

SECRET

- 47 -

SECRET

Chief of Naval Operations, Navy Department, Navy Security
Committee Member - 1

Department of Energy - 5

Department of Defense, Director for Counterintelligence
and Security Policy, Office of the Deputy Under Secretary
of Defense - 1

Chief, Security Education Division, Defense Industrial
Security Institute - 1

Chief, Security Education Group, Office of Security - 1

Director, Division of Security, Nuclear Regulatory
Commission - 1

Director, Office of Security, General Accounting
Office - 1

Director, FBI - 1

Chairman, House Permanent Select Committee on
Intelligence - 1

Chairman, Senate Select Committee on Intelligence - 1

Intelligence and Security Command, U.S. Army - 8

SECRET

- 48 -

SECRET

SECRET